

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF EZINQOLENI MUNICIPALITY FOR THE YEAR
ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ezingoleni Municipality which comprise, the balance sheet as at 30 June 2009, the income statement, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the entity-specific basis of accounting as set out in accounting policy note 1 and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion the financial statements of the Ezingoleni Municipality as at 30 June 2009 have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA.

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters:

Basis of accounting

8. The Municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1.

Unauthorised Expenditure

9. As disclosed in note 30 to the financial statements, unauthorised expenditure to the amount of R450 383 was incurred, as overspending in Salaries, wages and allowances, repairs and maintenance and contributions to assets.

Fruitless and wasteful expenditure

10. As disclosed in note 30 to the financial statements, fruitless and wasteful expenditure to the amount of R83 538 was incurred, as cell phone expenses were above set limits.

Irregular expenditure

11. As disclosed in note 30 to the financial statements, irregular expenditure to the amount of R213 578 was incurred, as a result of a proper Supply Chain Management process not being followed.

Revision of the previously issued financial statements

12. There were no additional material amendments that were effected after the audit last year.

Restatement of corresponding figures

13. As disclosed in note 31 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during 2008/09 financial year in the financial statements of the Ezingoleni Municipality at, and for the year ended, 30 June 2008.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relates to my responsibilities in the audit of the financial statements:

Material inconsistencies in information included in the annual report

14. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this/these schedules and accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation**Municipal Finance Management Act**

16. The Accounting Officer did not promptly inform the MEC for local government in the province and the Auditor-General, in writing of the irregular expenditure incurred in respect of renewal of the Municipality's insurance services as required by section 32(4) of the MFMA.

Key governance responsibilities

17. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input type="checkbox"/>	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		<input type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		<input type="checkbox"/>
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines [section 126 of the MFMA].	<input type="checkbox"/>	
Availability of key officials during audit			

No.	Matter	Y	N
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	1. The municipality had an audit committee in operation throughout the financial year.	<input type="checkbox"/>	
	2. The audit committee operates in accordance with approved, written terms of reference.	<input type="checkbox"/>	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	<input type="checkbox"/>	
7.	Internal audit		
	3. The municipality had an internal audit function in operation throughout the financial year.	<input type="checkbox"/>	
	• The internal audit function operates in terms of an approved internal audit plan.	<input type="checkbox"/>	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	<input type="checkbox"/>	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		<input type="checkbox"/>
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	<input type="checkbox"/>	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	<input type="checkbox"/>	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	<input type="checkbox"/>	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	<input type="checkbox"/>	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	<input type="checkbox"/>	
14.	SCOPA resolutions have been substantially implemented.	<input type="checkbox"/>	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		<input type="checkbox"/>
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		<input type="checkbox"/>
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Ezingoleni Municipality against its mandate,	<input type="checkbox"/>	

No.	Matter	Y	N
	predetermined objectives, outputs, indicators and targets [section 68 of the MFMA].		
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		<input type="checkbox"/>

18. The municipality continued to adopt good governance practices throughout the year. However there is still a lack of efficient and effective internal controls and non-compliance with the legislation relating to governance matters and as a result significant amendments had to be made to the financial statements and shortcomings to the reporting of performance information were identified.

Investigations

19. An investigation was conducted by the Department of Transport. The investigation was initiated based on allegation of irregular issuing of learner licences by the municipality's traffic section. The Municipality is still waiting for a final report and recommendations on this matter from the Department of transport.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

20. I have reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

21. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

22. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

23. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

24. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the review findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

No reporting of performance information

25. The annual report of the Ezingoleni Municipality did not include an assessment by the Municipality's accounting officer of the entity's performance against any measurable performance objectives, set in terms of the service delivery agreement, as required by section 121(4)(d) of the MFMA.

Content of integrated development plan

26. The integrated development plan of the Ezingoleni Municipality did not include input, output and outcome indicators in terms of its performance management system, as required by regulation 9 of the Municipal Planning and Performance Management Regulations, 2001

27. The key performance indicators set by the Ezingoleni Municipality did not include all the applicable general key performance indicators applicable to the Municipality, as prescribed in terms of section 43(1) of the MSA.

No mid-year budget and performance assessments

28. The accounting officer of the Ezingoleni Municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

Usefulness and reliability of reported performance information

29. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:
- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
 - Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
 - Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

Inconsistently reported performance information

30. The Ezingoleni Municipality has not reported throughout on its performance with regard to its performance indicators and targets as per the approved integrated development plan. Key performance indicators in the Annual Performance Report are not consistent with the IDP.

KEY PER INDICATOR/TARGET AS PER IDP	KEY PERFORMANCE INDICATOR/TARGET AS PER PERFORMANCE REPORT
# of new (low cost) houses built - 500 new units by June 2009	Implementation of construction of Insitu houses
Kilometres of community access roads maintained - 240km by June 2009	Completion of Mansfield access road

Reported performance information not relevant

31. The following targets with regard to the provision of adequate infrastructure did not clearly relate to the relevant predetermined objectives of the Municipality's capabilities:

Targets set for the Provision of adequate infrastructure in the IDP are not practical and realistic.

- % of households with access to water 75% by June 2009 but the municipality have no influence on water provision.
- % of households with access to electricity 60% by June 2009 but the municipality does not have capacity to provide electricity infrastructure.

Key performance indicators reported in the Annual Performance Report are not measurable and precise.

- completion of upgrading Khomo access road.

FINAL DRAFT

APPRECIATION

32. The assistance rendered by the staff of the Ezingoleni Municipality during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence